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Report Highlights:

The 2006 EU grain harvest was about 10 MMT smaller than in 2005, amounting to 246.5 MMT. However, this will not cause a general shortage on EU grains markets. The main impact if this year's lower crop will be that ending stocks will be drawn down significantly. In particular, intervention stocks will be depleted with the exception of land locked stocks in Hungary. As a result of the bullish situation on the world cereals markets, EU cereals prices have risen significantly in recent weeks, by up to 60 percent compared to November 2005. Actual shortages are reported only for the brewing barley and the high quality oats markets. Due to the shorter crop, EU exports of grains will be somewhat smaller than in previous years. Domestic demand during the current MY is forecast to remain relatively stable. Increase in grain use for biofuels production is marginal since new investment will not enter into operation before the end of 2007.

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Introduction

This report presents the EU-25 grain and feed outlook, with Production, Supply and Demand (PSD) estimates for Marketing Year (MY) 2006/07. The report is consolidated for the 25 Member States of the European Union. Tables and estimates presented in this report are based on the opinion of Foreign Agricultural Service analysts in the EU, but **ARE NOT** official USDA data. Contributors to this report include:

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HA = Hectares
MT = Metric ton
MY = Marketing Year. The EU local marketing years used in this report are July/June, except for Corn, which follows an October/September calendar.

General Summary

The 2006 EU grain harvest was about 10 MMT smaller than in 2005, amounting to 246.5 MMT. However, this will not cause a general shortage on EU grains markets. The main impact of this year's lower crop will be that ending stocks will be drawn down significantly. In particular, intervention stocks will be depleted with the exception of the land-locked stocks in Hungary. As result of the bullish situation on world cereals markets, EU cereals prices have risen significantly in recent weeks, by up to 60 percent compared to November 2005. Actual shortages are reported only for the brewing barley and the high quality oats markets.

Due to the shorter crop, EU exports of grains will be somewhat smaller than in previous years. Domestic demand during the current MY is forecast to remain relatively stable. Increase in grain use for biofuels production is marginal since new investment will not enter into operation before the end of 2007.

Growing conditions for next year's grain harvest seem to be satisfactory to good in most of the European regions. Topsoil moisture supplies are better than moisture levels in lower soil levels.

Wheat

PSD Table EU-25, Wheat

Country	EU-25					
Commodity	Wheat				(1000 HA)	(1000 MT)
	2004 USDA Official [Old]	**Revised Post Estimate [New]**	2005 USDA Official [Old]	**Estimate Post Estimate [New]**	2006 USDA Official [Old]	**Forecast Post Estimate [New]**
Market Year Begin	**07/2004**		**07/2005**		**07/2006**	
Area Harvested	23243	23243	22529	22529	22670	22138
Beginning Stocks	10602	10602	25202	25202	20940	23015
Production	136774	136774	122638	122638	117887	117150
TOTAL Mkt. Yr. Imports	7393	7393	7600	7608	6800	6500
Jul-Jun Imports	7393	7393	7600	7608	6800	6500
Jul-Jun Import U.S.	1118	1118	1025	1025	-	750
TOTAL SUPPLY	154769	154769	155440	155448	145627	146665
TOTAL Mkt. Yr. Exports	14367	14367	15000	15021	16000	14000
Jul-Jun Exports	14367	14367	15000	15021	16000	14000
Feed Dom. Consumption	56700	56700	60500	60500	57000	60000
TOTAL Dom. Consumption	115200	115200	119500	117412	116000	118140
Ending Stocks	25202	25202	20940	23015	13627	14525
TOTAL DISTRIBUTION	154769	154769	155440	155448	145627	146665

Note: All values in 1000 MT, except Area Harvested row in 1000 HA.
Source: FAS EU Posts, not official USDA data.

Wheat Production

EU-25 wheat production is forecast to reach 117.2 million MT in MY 2006/07, a 4.5 percent decrease from 2005/06 production. With a somewhat late start, and high temperatures during June and July, some analysts projected low head-fill rates and small, poor-quality kernels in the 2006/07 crop. Indeed, soft wheat yields are lower, when compared to those of last year, except in Spain where yields up. However, fears of poor quality, amplified by August rains and low temperatures in Northern and Eastern Europe, appear to have been unwarranted as, to the surprise of many, wheat quality in most regions of Europe is above normal.

EU-25 average durum wheat yields increased in 2006/07 compared to last year, because of better weather on the Iberian Peninsula. The 2005/06 Spanish durum crop was reduced by a severe drought; however, the 2006/07 crop, with about two-thirds the 2005/06 area, produced about twice the tonnage. In Italy, the removal of marginal land, particularly in the South, resulted in a 13 percent decline in durum wheat production (to 3.3 million MT).

Wheat Consumption

Despite the 5.5 MMT lower wheat harvest in 2006, wheat supplies are not short in Europe. EU markets are driven by global grain market conditions and by local speculation for even higher prices later in the year. The stock-to-use ratio for wheat in the EU is calculated at 12.3 percent by the end of MY 2006/07 versus 19.6 percent at the beginning of the year. Average EU wheat prices in November 2006 were 30 to 40 percent higher than the previous year, and about 20 percent higher than the August 2006 average.

Overall trends in EU meat production suggest only modest growth in animal feed demand, with strongest growth in the pork sector. Wheat utilization for animal feed will largely depend on relative grain prices. The Dutch and Belgian compound feed industries typically avail themselves of grain supplies, using a 30 to 40 percent wheat mix for pork and poultry feed. For 2006/07, wheat concentrations in pork and poultry feed have been closer to the 25 to 30 percent level.

As demand for high quality milling wheat continues to be strong, industrial demand is also growing. In the United Kingdom, plans are underway to open a wheat starch plant by March 2007. This facility alone could increase UK wheat demand by 100,000 MT in 2006/07, and up to 750,000 MT in 2007/08. However, the largest segment of expected demand growth is in EU ethanol production. Ethanol output in the EU-25 is estimated to increase from 830,000 MT in 2005 to over 2.5 million MT in 2007. Cereals are the main feedstock for ethanol production. This includes rye and triticale in Germany, wheat in most other countries and corn. For Germany, investment plans have been made public to also use sugar beets as feedstock. The driving argument for this decision is to utilize freed capacity at existing sugar mills resulting from the EU sugar reform. Ethanol by-products, such as dried distiller grains (DDGs), are expected to gradually complement the EU feed supplies. In France, ethanol production is expected to absorb 130,000 MT of wheat in 2006/07. Under current projections, this amount could easily double in 2007/08. In the United Kingdom, a new ethanol plant, with a production capacity of 400,000 tons a year, will likely become operational in 2008. This facility alone is expected to contract 1.2 million MT of wheat a year. The German ethanol industry currently processes about 700,000 MT of wheat a year. Despite strengthening grain prices, demand from the German ethanol industry is likely to grow as new legislation will require a mandatory 1.2 percent ethanol blend in gasoline sold after January 1, 2007 (the rate to be increased annually to 3.6 percent from January 2010).

Wheat Trade

Attractive world prices and less supply competition, particularly from the Black Sea and Australia, encouraged EU wheat exports to third countries at the beginning of the MY. As of 1/12/2006, EU-25 wheat exports volume for MY 06/07 were similar to their level at the same period of MY 05/06. France recently exported significant volume of soft wheat to Egypt and North Africa. Recently, the EU stopped issuing export licences with normal length in order to slow down the draining of the domestic market. Depending on the EU-25 domestic market situation, the European Commission (EC) could even introduce an export tax. More likely, the EC will continue to release intervention stocks for sale on the domestic market. This action also provides room for exports from the free market. Indeed, some of the intervention sales onto the domestic market may end up in export channels.

Wheat exports from Hungary have been very strong. July exports topped 132,000 MT, reaching a record 320,000 MT in August 2006. During the previous marketing year, Hungary exported about 1.5 million MT, with destinations mostly in the EU-15. For 2006/07, Hungarian wheat exports could easily exceed that level, but will be limited by transportation capacity. Despite having rented railway cars from other EU countries, Hungarian rail is estimated to have a monthly capacity of around 50,000 to 80,000 MT. Furthermore, as hot weather has affected water levels along the Danube River corridor, the upper limit of existing monthly barge capacity is estimated to be around 170,000 MT. A further 100,000 MT a month could be shipped out by truck. However, the distance range is significantly limited by transportation costs and road infrastructure.

Italian soft wheat imports for 2006/07 (including intra-EU trade) are expected to fall slightly, to about 4.7 million MT. Despite a very clean U.S. crop (see US Wheat Crop Quality Reports), imports from the U.S. (mainly Dark Northern Spring wheat) could decrease to about 400,000 MT due to concerns with deoxynivalenol (DON), also known as “vomitoxin.” EU Regulation EC 856/2005, which became effective on July 1, 2006, sets maximum tolerance levels for DON at 1.25 PPM for bread wheat, and 1.75 PPM for durum wheat. In Italy, US wheat will also need to be price competitive vis-à-vis other high quality wheat. Italian durum wheat imports are also expected to decline to 1.5 MMT. While the Italian durum crop was lower, there is still a significant volume of carry-over stocks from the 2004 crop. Nevertheless, Italian pasta exports will continue on a path of moderate growth. In 2005/06, Italy’s pasta exports totalled 1.559 MMT (product weight), a 3 percent increase from the previous year, surpassing for the first time the volume of pasta consumed domestically.

Poland’s wheat imports are expected to increase significantly as there appears to be a significant deficit of high quality milling wheat. Germany and France are likely to be the primary suppliers to the Polish market, but some trade opportunities may also be available to exporters outside the EU-25. With improving quality in the British wheat crop, imports into the UK are expected to decline slightly. Although UK domestic suppliers are keen to meet demand, the UK bread making industry remains very reliant on supplies of high quality wheat, particularly from North America. This will create some opportunity for trade outside the EU-25.

Barley

PSD Table EU-25, Barley

Country	EU-25					
Commodity	Barley				(1000 HA)(1000 MT)	
	2004 USDA Official [Old]	**Revised Post Estimate [New]**	2005 USDA Official [Old]	**Estimate Post Estimate [New]**	2006 USDA Official [Old]	**Forecast Post Estimate [New]**
Market Year Begin	**07/2004**		**07/2005**		**07/2006**	
Area Harvested	13058	13058	13049	12939	12811	13085
Beginning Stocks	4287	4287	10706	10706	8223	8279
Production	61753	61753	52917	54155	55013	54500
TOTAL Mkt. Yr. Imports	482	482	300	234	350	350
Oct-Sep Imports	554	554	300	370	350	350
Oct-Sep Import U.S.	-	-	-	-	-	-
TOTAL SUPPLY	66522	66522	63923	65095	63586	63129
TOTAL Mkt. Yr. Exports	2916	2916	3200	3057	3000	2900
Oct-Sep Exports	3881	3881	2500	3835	3500	3000
Feed Dom. Consumption	37500	37500	37200	37200	39500	39500
TOTAL Dom. Consumption	52900	52900	52500	53759	54800	55000
Ending Stocks	10706	10706	8223	8279	5786	5229
TOTAL DISTRIBUTION	66522	66522	63923	65095	63586	63129

Note: All values in 1000 MT, except Area Harvested row in 1000 HA.
Source: FAS EU Posts, not official USDA data.

Barley Production

While the EU-25 winter barley harvest was generally quite good, spring barley suffered from the heat wave during the months of June and July. This notwithstanding, most of the spring crop in France, Hungary, Austria, Slovakia, the United Kingdom, Germany and the Netherlands – or at least the crop harvested before the August rains - was of reasonably good quality. Southern Europe also planted and harvested early, with good results. The greatest damage occurred in northern and eastern Europe. With the late summer rain, heat stressed barley fields started to germinate, rendering much of the malting barley unusable for malting. This problem repeated itself in southern and eastern Germany, in Poland, the Baltics, the Czech Republic, Denmark and southern Sweden. However, Finland, parts of Sweden and Scotland managed to avoid the worst damage. The Finnish Ministry of Agriculture revised crop estimates show 1.7 MMT compared to 2.1 MMT last year.

According to first official crop estimates for 2006/07, the total barley crop in the UK fell to 5.2 million MT. Winter barley production increased by 70,000 MT, while the spring crop fell 390,000 MT. In Scotland, the planted area for barley is projected to increase; however, elsewhere in the EU planted acreage for spring barley could potentially decrease in favour of energy crops.

Barley Consumption

EU demand for quality malting barley currently exceeds available domestic supply. Prices have climbed steadily as some farmers appear to be speculatively "holding-back". Beer sales have been very good and, as long as current trends continue, demand for quality malting barley will likely increase. For 2006/07, the German brewing industry reports a barley deficit of about 1 million MT. German demand for spring brewing barley is estimated at 2 to 2.25 MMT. Companies could compensate for the deficit by processing around 150,000 MT of winter barley varieties, or by possibly starting to accept lower quality spring barley varieties. This latter option however, forces companies to work with protein levels of up to 12.5 percent. Denmark and the Czech Republic face very similar circumstances. Shortages of quality malting barley have already led to some shutdowns and downscaling of production (i.e. in France). Regions where quality barley is unavailable, or where transportation costs are high, are most susceptible. However, with the malting plant closures, demand pressures could begin ease.

Tight supplies for wheat and corn are likely to encourage greater use of barley for feed. As feed quality barley typically trades at lower prices than other grains (around 10 percent lower than feed wheat), animal compound feeds are likely to substitute wheat for barley. In Germany, barley for animal feed use is expected to reach 8 MMT, an 800,000 MT increase from 2005/06.

Barley stock-to-use ratio is forecast to drop to 9.5 percent by the end of MY 2006/07 compared to 15.4 Percent by the end of the previous MY.

Barley Trade

Due to the very tight market situation, the European Commission has been rejecting refunds for barley export. At the same time, it has liberated for sale on the domestic market nearly one-third of the 1.5 million MT currently held in intervention stocks. While internal demand for feed barley remains firm, EU exports will nonetheless continue to fill gaps left by Australia and the Ukraine. Exports to the Middle East and other countries like Tunisia, Iran and Japan are expected to remain strong. Exports of Hungarian feed barley have increased since EU accession in 2004, rising from 150,000 MT to 290,000 MT this year. French malting barley exporters have noted a surging demand for malt barley in China. According to France Export Cereals, supply to China could increase from the current 100,000 MT to about 500,000 MT over the next few years. French exporters appear to be very keen to capitalize on growing Chinese demand for quality malting barley. China is the world's largest brewer and consumer of beer.

Despite strong demand for quality malt barley, imports are not expected to increase. Insufficient supplies and logistical difficulties in shipping to Europe will limit growth potential in the near term. Even U.S. brewery Anheuser Busch now obtains its limited requirement for EU production from Spain.

Corn

PSD Table EU-25, Corn

Country	EU-25					
Commodity	Corn				(1000 HA)(1000 MT)	
	2004 USDA Official [Old]	**Revised Post Estimate [New]**	2005 USDA Official [Old]	**Estimate Post Estimate [New]**	2006 USDA Official [Old]	**Forecast Post Estimate [New]**
Market Year Begin	**10/2004**		**10/2005**		**10/2006**	
Area Harvested	6373	6373	5863	5959	5695	5739
Beginning Stocks	2938	2938	7518	7273	10036	9965
Production	53478	53478	48318	48247	44325	44347
TOTAL Mkt. Yr. Imports	2966	2966	3000	2940	3000	3000
Oct-Sep Imports	2966	2966	3000	2940	3000	3000
Oct-Sep Import U.S.	55	55	-	20	-	20
TOTAL SUPPLY	59382	59382	58836	58460	57361	57312
TOTAL Mkt. Yr. Exports	164	164	100	137	500	150
Oct-Sep Exports	164	164	100	137	500	150
Feed Dom. Consumption	42000	42000	39200	39200	39500	40000
TOTAL Dom. Consumption	51700	51700	48700	48358	49300	49562
Ending Stocks	7518	7518	10036	9965	7561	7600
TOTAL DISTRIBUTION	59382	59382	58836	58460	57361	57312

Note: All values in 1000 MT, except Area Harvested row in 1000 HA.
Source: FAS EU Posts, not official USDA data.

Corn Production

Although EU corn production is partly irrigated, results for 2006/07 were not good. Production suffered under the extreme heat, declining almost 8 percent compared to the previous year. In Germany, production reached 3.26 million MT, or about 800,000 MT less than 2005. August rains arrived too late to alleviate stress on the crop. As a result, a number of German farmers with biogas facilities converted an estimated 20,000 hectares of corn intended for grain use or corn cob mix (CCM) to silage corn for biogas. In 2006, German farmers planted 1.36 million hectares of silage corn for animal feed and feedstock for biogas; this represents an increase of about 100,000 hectares from 2005. Industry estimates suggest that approximately 150,000 to 170,000 hectares are used in the production of corn silage, which is later used as fuel for biogas. In 2007/08, the required corn planting area for biogas in Germany is expected to increase to almost 250,000 hectares. A large share of these biogas fields will be on set-aside land, and will not compete with food or animal feed production. Actually, biogas production is specialty for Germany due to a national support program.

For the second consecutive year, corn production declined in Italy (down 5 percent); the partially decoupled payments under the new CAP served to encourage alternative production, including a limited expansion of soybeans in the north of the country. Also, the drought of last June and particularly July, accompanied by very high temperatures, badly affected crop development which was not offset by the following rains during most of August and

September. As a result Italian yields averaged some 3 percent less than in 2005, but 10 percent lower than in 2004.

Over the past two years, French corn area declined by about twenty percent due to restrictions in irrigation regulations, fear of drought by farmers and transfer to silage corn to feed cattle when hay crops are low. But Hungarian corn production was only 600,000 MT lower than in 2005 due to relatively favourable growing conditions and slightly increased area.

Corn Consumption

The UK corn balance is driven by domestic consumption. In MY2005, the closure of a corn starch plant reduced domestic consumption by 150,000 MT. There was a consequent reduction in corn imported from France, which supplies the vast majority of the UK requirement. A phased closure of a second maize starch plant as the wheat starch plant previously mentioned comes on line is also expected. However, this may not be until MY2007. Consequently, MY2006 corn demand is forecast little changed on MY2005. Once the second plant closes, corn demand is expected to fall around 500,000 MT. In France a new ethanol plant using corn is expected to start operating in late 2007. Its annual processing capacity is reported at 300,000 MT of corn. Hungary reports a 200-300,000 MT higher use of corn in existing ethanol plants and rumours abound of new ethanol plants planned for the country. However, there are indications that only one or two of these plans may materialize by the end of 2008. Size estimates are currently not available.

Despite a 3.9 million MT lower corn crop in 2006 feed use of corn is expected to exceed the MY2005/06 level of 39.2 million by 800,000 MT. Corn prices at the beginning of December in Germany are about 40 percent higher than one year ago. This may initiate additional shipments of corm from Hungary to Germany.

Corn Trade

With the final Italian corn crop estimated to be 9.2 MMT, or 8 percent less than last year, Italian corn imports are expected to total some 1.7 MMT in 2006/07. Most will be sourced from other EU countries, especially France and Hungary.

For the Netherlands, during 2005/2006 feed use of corn declined due to limited availability in Northwestern Europe. Since the harvest of 2004, the Benelux imports about 10,000 MT of Hungarian corn per month via the Danube. Also, about 100,000 MT was imported from Serbia in 2005/2006. Based on sector sources, corn imports from Hungary this MY are expected to increase but not via the Danube due to the restricted logistics on the river. Further, trade and logistics experts claim that Hungary has got a significant bottleneck in grain transportation equipment, particulalry with the timely return of empty rail cars. As such, monthly Hungarian exports are expected to be limited to 300-400,000 MT.

In addition, the Netherlands also imports 50-100,000 MT per year of specific quality flint maize from Argentina. After processing, milling and extrusion, most of the flour and flakes is re-exported. Starch producers seldom import from outside the EU, because the supply from France and Hungary is mostly sufficient. Further, biotech concerns limit the choice of possible third country suppliers to little more than Brazil.

Corn Stocks

Intervention stocks of corn still amount to 4.76 MMT. Of that, the vast majority, totalling about 4.6 MMT, are held in Hungarian intervention storage. The optimistic expectation for

Hungary is that in 2006/07 only 1.0 to 1.5 MMT of corn will be offered to intervention. The new, stricter, intervention criteria will assist to prevent larger scale intervention purchases.

Policy

As market prices remain firmly above the EU intervention price, the mechanisms of farm price protection become increasingly anachronistic. The Commission is reportedly working to eliminate grain intervention by 2010. Export subsidies should be eliminated by 2013. Accelerating the plan to abandon corn intervention will likely kindle significant opposition with farmer groups and key political figures. For the intervention period starting on November 1, 2006, the Commission has amended the minimum standards for intervention for corn and sorghum. The stricter rules are widely seen as a clear effort by the Commission not to repeat mistakes of the past. As Bulgaria and Romania join the EU-25 on January 1, 2007, the EC did not want corn intervention in the Balkans to spiral out of control.